The Industrial
O·U·T·L·O·O·K

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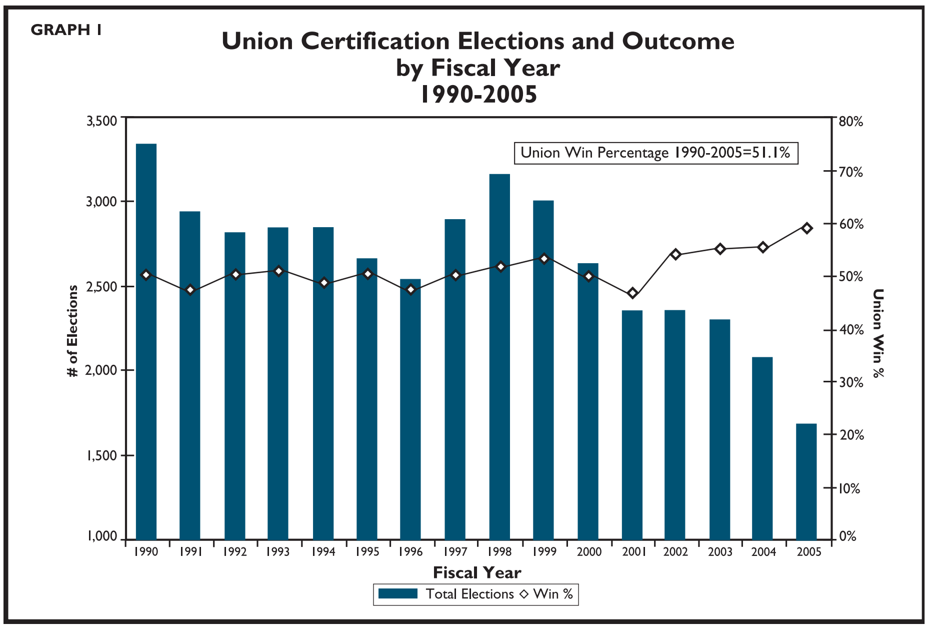
AFL-CIO Gets Knocked Down. . . Can They Get Up Again?



After this summer, the AFL-CIO knows exactly what Joe Frazier must have felt like in 1972 as Big George Foreman knocked him out for the World Heavyweight Championship. Howard Cosell's famous call of "Down goes Frazier, down goes Frazier, down goes Frazier," can easily apply to the AFL-CIO as it lost almost 40% of its members in just a few short months.

The exodus of the Service Employees Union (SEIU), the Teamsters (IBT), the Food and Commercial Workers (UFCW), and the Textile and Hotel Workers (UNITE HERE) has sent shockwaves through organized labor and knocked a very large 800 lb. gorilla to the canvas. The question now is, will it get up?

History says, "Yes." After all, this is not the first time organized labor has split. Former AFL-CIO president Lane Kirkland spent most of the 1980s bringing the United Auto

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Investor Demand For Industrial Property Marches On!

Investor demand for stabilized industrial property continues at unprecedented levels. Despite a 50-100 basis point increase in long and medium-term interest rates over the past year and a 200 bps jump in short-term rates, cap rates seem to push lower every day. Where an 8.0% cap rate property was once the gold standard in terms of asset and tenant-credit quality (and assuming a 10-year lease), the bar is now closer to 6.0% in many markets. Certainly, rising construction costs and an ever-diminishing supply of prime sites have had a dramatic and likely permanent effect on property values. Eventually, rental rates will feel the same pressure and a general spike in industrial rents is probably in its formative stages.

But, in the spirit of "striking while the iron is hot," corporate users have a unique opportunity to cash in on the buying frenzy for leased warehouse/distribution and light manufacturing buildings. Certainly, the sale/leaseback market is thriving, and if a corporate owner can package two or more properties for sale, so much the better.

Another area of opportunity is in the leasing of a new facility, where timing allows a user to consider a

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In This Issue

AFL-CIO – *continued from page 1*

Workers (UAW), Teamsters, and Mine Workers (UMW) back into the fold after infighting.

The irony is that it wasn't all that long ago, in 1995, that John Sweeney won his present job as AFL-CIO president by ousting Mr. Kirkland. Sweeney took over as president after leading the SEIU to unprecedented growth from 1980 to 1995. In 1980, the SEIU had about 625,000 members, and after Sweeney's departure, membership was over 1 million.

Many expected Mr. Sweeney could work his magic on the AFL-CIO and save organized labor from decades of declining membership. In 1995, union membership as a percentage of total employed wage and salary workers hovered at 14.9%, according to reports from the Bureau of Labor Statistics (BLS). Overall membership was at 16.36 million and the AFL-CIO had roughly 13 million of those in the fold. After a decade of Sweeney's leadership, AFL-CIO membership is slightly lower (well, before losing 5 million members from July to September) and overall union membership is down sharply. According to the BLS, union's share of the total workforce last year declined by 16%, to 12.5% of total employment.

Several former AFL-CIO unions have seen the writing on the wall and feel that a change is needed to increase union membership. The IBT, SEIU, UFCW, UNITE HERE, Laborers Union (LIUNA), Carpenters (UBC), and Farm Workers (UFW) have joined hands as the Change to Win federation to place greater focus on organizing activities and more transparency in leadership. The coalition complains that political lobbying, particularly in favor of Democrats, has made the AFL-CIO indebted to one party with no visible payback. About $36 million of the AFL-CIO's $125 million budget is earmarked for voter mobilization and education efforts. The four unions that jumped ship represent approximately 25% of this $125 million budget, or roughly $31 million in lost AFL-CIO dues.

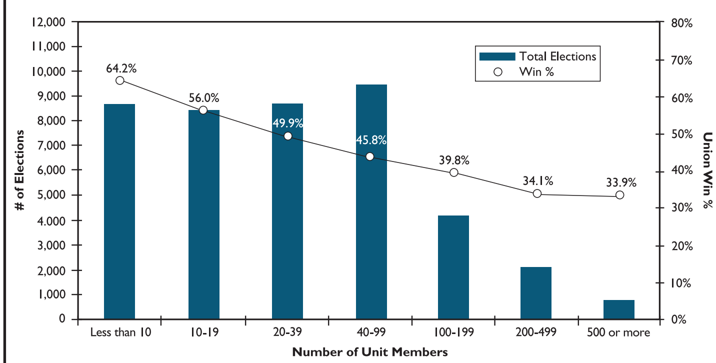
As a group, unions have won 51.1% of all union certification elections since 1990 (see Graph 1 on the cover). However, the graph shows the number of elections has been on a steady decline since 1998, shortly after Sweeney's ascension to the throne. The one bright spot for organized labor is that unions are still winning over half of these elections.

Is bargaining unit size a predicator of unionization success? The bad news for Big Labor is its success comes in the smallest bargaining units (Graph 2). In small units, with fewer than 19 workers, unions are winning over 56% of all union certification elections. As unit size increases, union success falls steadily. In the largest units, those with 200 – 499 and 500 or more workers, unions are only winning 34% of certification elections.

The undisputed champion in union win percentage from 1990 to present is the SEIU. Not only has the SEIU conducted the second most certification elections over the period, more than 2,700, but the union has won a staggering 67% of these elections (Graph 3).

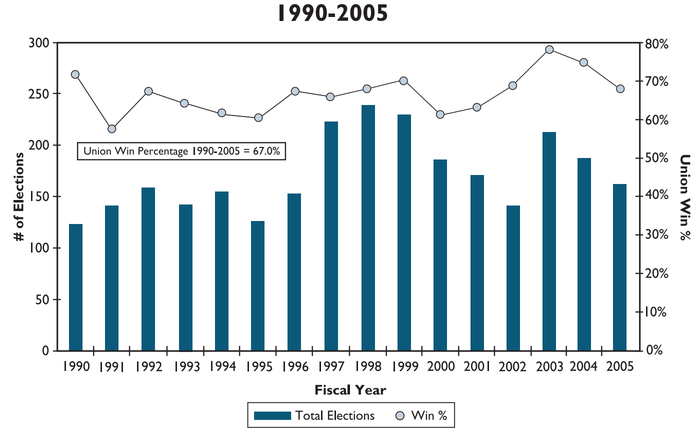
GRAPH 2

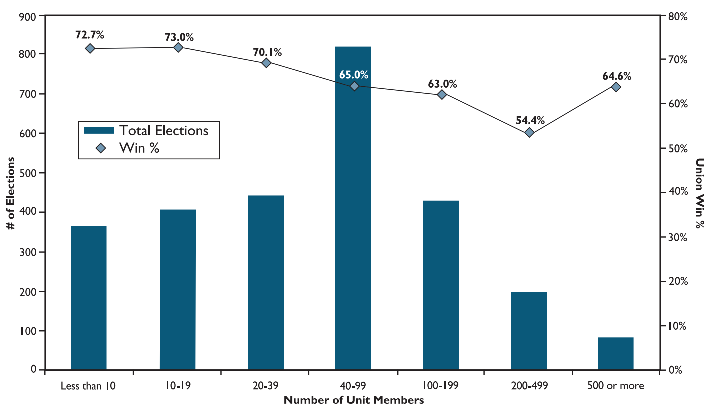
Union Certification Elections and Outcome by Bargaining Unit Size 1990-2005



GRAPH 3

SEIU Certification Elections and Outcome by Fiscal Year 1990-2005





GRAPH 4
SEIU Certification Elections and Outcome by Bargaining Unit Size 1990-2005

Surprisingly, the number of SEIU certification elections rose sharply after Sweeney departed in 1995, and the union's success in organizing leaped as well. In 1995, the SEIU won only 60.3% of certification elections, but in 1996 the win ratio vaulted to it highest level (67.3%) since winning almost 72% in 1990. In the 10 years since Sweeney departed, the SEIU has won more than 67% of the elections in 7 out of the last 10 years, topping out at almost 78% in 2003.

Even more impressive is the union's success in organizing workers across all bargaining unit sizes (Graph 4). The SEIU has had the most success in organizing smaller units, winning over 70% of elections in each of the three smallest unit categories: Less than 10, 10 – 19, and 20 – 29 workers. However, the union's win percentage in larger units is nearly as impressive. Bargaining units of 40 – 99, 100 – 199, and 500 or more workers are enjoying win ratios above 63%. The big "loser" for the SEIU is units in the 200 – 499 range, which won a respectable 54.4% of certification elections during the period.

The SEIU's election success is a big reason why they became the largest union in the AFL-CIO at over 1.8 million members. SEIU President, Andrew Stern, said their growth can be attributed to merging and consolidating membership into locals that are large enough to be successful; devoting 50% of its resources to organizing; and developing a strategy to unite workers and set standards in industries, markets, and employers.

Justin Hakes of the National Right to Work Foundation says workers today may not agree with "one-size-fits-all" contracts and compulsory dues that go to political campaigns in which they have little say. The founding members of the Change to Win federation are saying something similar in their flight from the clutches of the AFL-CIO. However, no one knows exactly what this divorce will mean for Big Labor.

A fragmented labor movement worries Democrats who rely on the AFL-CIO's cash and manpower on Election Day. Most experts believe the divide could weaken organized labor, though some feel competition may be what's needed to shake the labor movement from its state of hibernation. ❑

Investor Demand – continued

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build-to-suit rather than leasing a developer-owned spec building or other existing property. These "pre-leased" development projects involve much lower risk for a developer, a fact that is not always reflected in the lease rate or terms offered to the corporate client. National and regional developers will typically reach for a profit of $5 to $7 per building square foot, plus developer fees, and a mark-up of the land on sites they control. This is generally their approach to pricing whether the project is pre-leased or built speculatively. On a project of 500,000 square feet these fees and profits can exceed $5 million, with a profit margin of 25% or more.

The Walker Companies can deliver a "turn-key" leased facility to a corporate tenant at a significantly lower cost with the same or better execution capabilities as a national developer. Our location consulting group can locate these facilities in communities that offer lower operating costs, better incentives and a more favorable labor environment than the typical developer-controlled locations. Unique joint venture structure allows sharing of the development profit, and overall occupancy costs for the client will be lower.

Call Raymond Walker or Daniel Wald at 404-892-1600 for more information, or email us at rwalker@walkerco.com or dwald@walkerco.com. ❑

Three Hurricanes in Three Months: The Straw That Broke the Piggy's Back

How Pork in the Transportation Equity Act Became the Republican's Last Straw

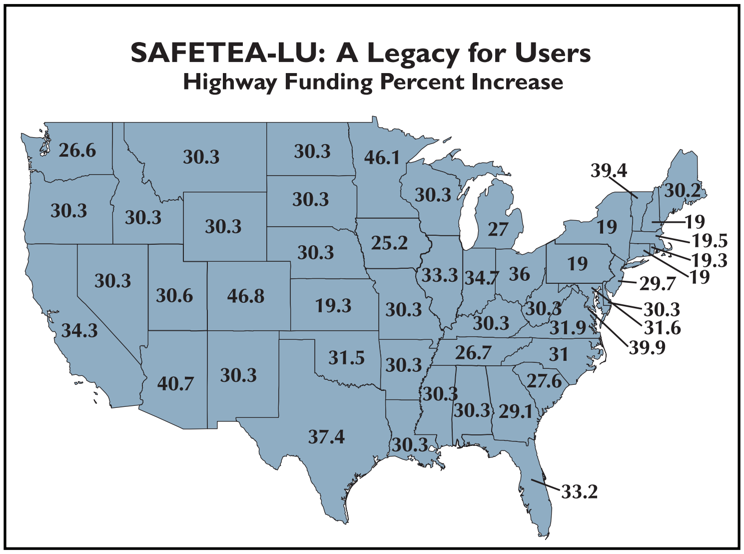
President Bush signed into law the costliest federal transportation bill ever —$286.4 billion— on August 10, 2005. This massive transportation measure is called the *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (SAFETEA-LU), and is designed to upgrade the country's network of roads, bridges and mass transportation systems over six years from fiscal 2004 through 2009. The $286.4 billion in guaranteed funding represents a whopping 42% increase over the previous transportation bill—TEA-21 (1998-2003).

Bush's signature was barely dry on the bill when three successive, devastating hurricanes — Katrina (August), Rita (September), and Wilma (October) — hit the U.S. heralding 2005 as the costliest year for natural disasters in U.S. history. Estimated combined losses for this sinister storm trio range from $93 to $160 billion.

Even before the country suffered this triple catastrophe, critics of the multi-billion dollar bill requested elimination of wasteful transportation projects:

• **Road to Ruin** –This report released by the Taxpayers for Common Sense (TCS) in June 2004 listed the 27 most wasteful and environmentally harmful highway projects in America. TCS claimed elimination of these pork projects alone would save federal taxpayers more than $24 billion.

• **"Veto the Highway Bill" Letter** – In July 2005, led by FreedomWorks President and CEO Matt Kibbe, executives from five other organizations advocating less government and conservative economic principles signed a letter to President Bush requesting he veto the transportation bill if it exceeded the president's $284 billion spending limit. The letter deemed the transportation bill "as one of the worst examples of pork-barrel spending of all time."



• **Council for Citizens Against Government Waste (CAGW)** – This taxpayer watchdog organization also slammed the Transportation Equity Act in July 2005 stating: "This bill is just the latest in last minute pieces of pork-laden legislation that Congress has passed." The now infamous $230 million "Bridge to Nowhere" (a bridge in Alaska that would serve an island with only 50 residents) headlined CAGW's sampling list of the more than 6,000 pork-laden pet projects in the transportation bill.

Since the hurricanes, even some Republican porkers are regretting the passage of the $286 billion package. Sen. John McCain (R-Ariz.) and six other Senate Republicans want to reallocate the bill's pork dollars to help pay for hurricane relief.

Rep. Jeff Flake (R-Ariz.) one of eight House members who originally opposed the bill, has proposed to rescind 10% of the bill's total cost, allow states to disregard the pet projects authorized by the legislation, and spend the money as they wish. "My guess is that most states would gladly forgo 10% of their funding for the ability to make funding decisions," Flake explained.

Headed by Chairman Mike Pence (R-Ind.), the Republican Study Committee (RSC) launched "Operation Offset," an effort to find savings in the federal budget to pay for hurricane relief. Operation Offset proposed cuts in the SAFETEA-LU legislation to the tune of $25 billion.

The outcry to de-pork the transportation bill has intensified from the numerous conservative watchdog

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“The First Thing We Do, Let’s Kill All The Lawyers.” — William Shakespeare, Henry VI, Part 2

Competition for Jobs Fuels Tort Reform

In a 2004 poll of in-house general counsel and senior litigators, more than 80% of respondents indicated the litigation environment could color their decisions about locating operations or doing business in a state. The poll was conducted by Harris Interactive for the U.S. Chamber Institute for Legal Reform, and included more than 1,400 corporate legal professionals.

The state of Mississippi learned this lesson all to well when they lost a bid for an $800 million Toyota assembly plant to San Antonio, TX. The *coup de grace* was delivered with sniper-like precision when a Toyota executive wrote Mississippi’s governor that “the litigation environment in Mississippi is unfavorable.” The Toyota executive added, “Reform of Mississippi’s tort system would, in my opinion, substantially improve your business climate and improve the State’s prospects in attracting new economic development.” In addition, a recent study by a local business group in Mississippi warned the state they could lose over 10,000 more jobs without legal reform.

According to the Harris survey, Mississippi was considered to have the worst litigation environment in the U.S. Although Mississippi ranked worst in this study, 96% of respondents who were familiar with recent legislative initiatives on legal reform in the state expect a moderate or major improvement in Mississippi’s legal environment.

Mississippi’s new legislation caps pain-and-suffering lawsuits at $1 million, and it enacts a $500,000 limit for medical malpractice awards. Punitive damages are capped on a sliding scale based on the net worth of the defendant. However, arguably the most significant segment of Mississippi’s new legislation is a provision limiting venue shopping whereby out-of-state plaintiffs flocked to four Mississippi counties dubbed “judicial hellholes” by the American Tort Reform Association. Now lawsuits must be filed in the county where the plaintiff lives or where the disputed act took place.

West Virginia has been ranked 49th in each of the last four years, but recently enacted workers compensation reforms may improve the state’s business climate. Improvement for the Mountaineer state can’t get here fast enough, according to the West Virginia Chamber of Commerce, which reports losing nearly 50,000 jobs since 2001.

Florida has dropped nine spots in three years, due largely to its perception as a venue for forum-shopping and asbestos litigation. Under Governor Bush, legislators have expanded on initial reforms enacted a few years ago. The new reforms will drastically improve the state’s litigation environment, including reform of joint and several liability rules, venue rules, asbestos and class action rules.

Texas, Georgia, and South Carolina lawmakers have jumped on the tort reform bandwagon with Mississippi and West Virginia as competition for jobs continues to fuel the momentum in favor of legal reform. Why are these states so motivated for tort reform? Because they realize how much they stand to lose when competing for jobs and investment against other states with more attractive business and legal environments.

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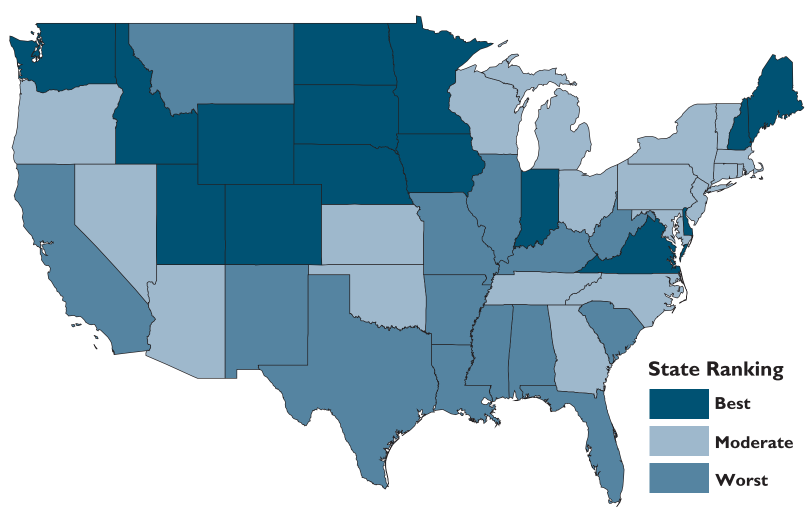
Ranking of State Legal Systems

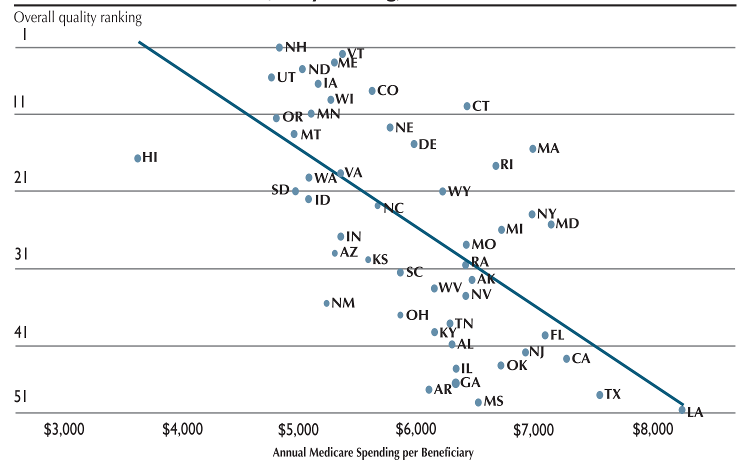


You Don't Get What You Pay For

States with Higher Medicare Spending Offer Lower Quality Care

According to a recent study in the journal Health Affairs, states with higher Medicare spending are more likely to provide lower quality, less-effective care to Medicare beneficiaries.

EXHIBIT 1
Relationship Between Quality And Medicare Spending, As Expressed By Overall Quality Ranking, 2000-2001



NOTE: For quality ranking, smaller values equal higher quality.

This study used the 24 quality measures developed by the Medicare Quality Improvement Organization. These quality measures use sample patient discharge records for the treatment of six common medical conditions (acute myocardial infarction [AMI], breast cancer, diabetes mellitus, heart failure, pneumonia and stroke) and capture interventions and evaluations "for which there is strong scientific evidence and professional consensus that the process of care either directly improves outcomes or is a necessary step in the chain of care that does so." The study's author ranked each state for each quality measure and then calculated a weighted average to compute each state's overall ranking.

The study, which examined state-level differences in spending per Medicare beneficiary and the quality of care provided, found that higher spending did not translate into higher quality. As Exhibit 1 shows, New Hampshire, which spent about $5,000 per Medicare beneficiary in 2001, had the highest quality ranking. However, Louisiana, which spent the most per beneficiary at approximately $8,000 per person, had the lowest overall ranking.

States with lower spending often had better quality care such as higher use of interventions and screening methods, including prescribing beta-blockers at hospital discharge for patients treated for a heart attack, ordering mammograms every two years for women ages 52-69, and conducting biennial eye exams for people with diabetes.

Where does the money in high-spending states go, if not to highly effective care? The study found that most money is spent on expensive health care that has not been shown to have a positive effect on Medicare patient satisfaction or health outcomes. States with higher spending and lower quality exhibited higher hospitalization rates and greater use of intensive care units (ICUs) for patients in the last six months of life. In addition, Medicare patients in states that raised Medicare spending $1,000 more per beneficiary spent, on average, an extra 1.3 days in the hospital and were nearly 4% more likely to be admitted to an ICU.

What causes some states to be high spenders and provide lower-quality care, while others are low spenders and provide higher-quality care? The study found that the composition of the state's medical workforce has a direct relationship with Medicare spending and quality of care.

Exhibit 2 examines state-level differences between the number of medical specialists per 10,000 population and the quality of care provided, as well as the relationship between the number of specialists and Medicare spending. The graph shows as the number of specialists per 10,000 people increases the quality of care decreases. In addition, states with a high number of specialists also tend to exhibit higher Medicare spending per beneficiary.

The opposite relationships between quality and spending hold true for states with high ratios of general practitioners. Exhibit 3 shows that as the number of general practitioners in the medical workforce increases the quality of care also increases. Furthermore, the graph examines the relationship between number of physicians that are general practitioners and Medicare spending. The graph shows that as the number of general practitioners per 10,000 increases, Medicare spending per beneficiary decreases.

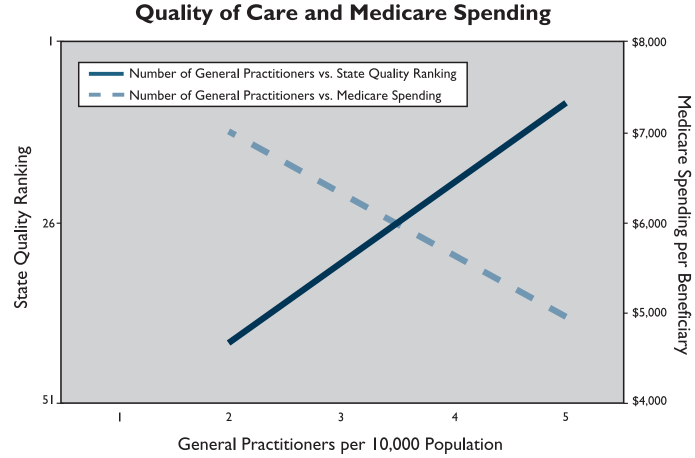
Increasing the number of general practitioners in a state by 1 physician per 10,000 is associated with a rise in that state's quality ranking of 10 places and a reduction in Medicare spending of $684 per beneficiary. The estimated effect of increasing the fraction of specialists in the medical workforce by 1 per 10,000 is a drop in overall quality ranking of 9 spots and an increase in Medicare spending of $526 per beneficiary.

EXHIBIT 2

Number of Specialists per 10,000 Population vs. Quality of Care and Medicare Spending

EXHIBIT 3

Number of General Practitioners per 10,000 Population vs. Quality of Care and Medicare Spending



While the overall quality of patient care may not be better in areas with higher levels of specialists per capita, one might suspect treatment of more acute conditions may be better. However, the study did not bear this out. States with more specialists per capita do not have lower mortality rates from all causes or post-AMI (heart attack).

Although researchers found a link between higher spending and lower-quality care, the study stressed that cutting Medicare spending as a way to improve quality is not the answer. What's more, naïve policies that simply target spending could have the undesired effect of reducing the quality of medical care in high-spending states even more. ❑

It Can't Be Harassment If We Are Having Sex

Only in California…

Sexual harassment is a touchy subject in today's working environment. A recent ruling by the California Supreme Court (who else?) could broaden the definition even further despite the court's longstanding reluctance to recognize claims of "sexual favoritism."

From 1991 -1998, Warden Lewis Kuykendall of the Valley State Prison for Women in Chowchilla openly carried on affairs with three female subordinates, and granted those women special privileges and promotions because of his sexual relationship with them.

Allegedly, one of the warden's paramours was granted a promotion despite direct opposition from a personnel review committee. A second lover was allowed to circumvent her supervisor and report directly to Kuykendall. The third woman was given promotions over more qualified candidates after threatening the warden to "take him down" by revealing "every scar on his body." The culture at the prison was such that employees repeatedly questioned if this was a workplace in which they would have to sleep their way to the top.

The plaintiffs in this case, Edna Miller and the now deceased Frances Mackey, who were not sexually involved with the warden, alleged sexual harassment against the Department of Corrections and sued for damages in 1999. The suit alleged female employees who complained about the warden's relationships were punished and retaliated against for their opposition. A lower court ruled against the women because they "were not themselves subjected to sexual advances and were not treated any differently than male employees."

However, the California State Supreme Court recently overturned that decision. Chief Justice Ronald M. George wrote that "although an isolated instance of favoritism…ordinarily would not constitute sexual harassment, when such sexual favoritism in a workplace is sufficiently widespread…in which the demeaning message is conveyed to female employees that are viewed by management as 'sexual playthings' or that the way required by women to get ahead is by engaging in sexual conduct," it can and does constitute harassment. ❑

Hurricanes – *continued from page 4*

groups who complain about GOP government spending. Steven Slivinski, director of budget studies at the Cato Institute, charged: "An inability to control pork is symptomatic of a much larger problem, the inability to control government spending overall." Steve Ellis, vice president of Taxpayers for Common Sense: "After years of decrying the practice from the outside, the Republican Party has had a taste of pork, and they like it." And the Club for Growth, a conservation organization who espouses tax reform and economic freedom, states on its website: "Too many Congressional Republicans have veered away from the limited government agenda that got them elected to the majority in Congress. They have approved pork-barrel highway bills worse than the Democrats used to give us."

Perhaps it has taken three villains named Katrina, Rita and Wilma to show Republicans that they shouldn't pave our country with pork. ❑

Site Selection Magazine Honors The Walker Companies

Site Selection magazine recently selected the firm to receive the prestigious William Dorsey Service Provider Award, the third time in four years The Walker Companies have been recognized for the firm's best-in-class professional services.

Raymond Walker, president, attributes this string of awards to The Walker Companies' ongoing innovation in its location consulting practice, the firm's culture of strong client stewardship, and its mandate for excellent quality work from its own professionals as well as service providers engaged to support client engagements.

Walker points to two recent initiatives that underscore these points:

1. Launching the Walker Acquisition Fund to purchase or develop industrial buildings in non-metro areas which are underserved by real estate developers. This will open these markets to companies that want to lease, rather than own, allowing them to benefit from the lower operating costs in these smaller communities.
2. Employing a site selection and development methodology that shaves months off the client's schedule. This is accomplished by employing an integrated team of experts on supply chain, logistics, location analysis, material handling, architecture, engineering and construction, who can solve a complex problem as a team, rather than in discrete steps. ❑

Lawyers – *continued from page 5*

A 2004 report from the U.S. Chamber of Commerce Subcommittee on U.S. Competitiveness says, "U.S. tort costs are accelerating at an unsustainable rate, representing roughly 2% of our GDP and equivalent to over $800 per citizen."

States graded the best in the U.S. Chamber Ranking of State Liability Systems enjoy an advantage over the lower-ranked states in attracting investment. For businesses seeking new sites for jobs, production and services, the worse the legal system, the worse are states' and local municipalities' chances for siting these new facilities in their jurisdiction.

Thomas Donahue, President and CEO of the U.S. Chamber of Commerce, sums up the need for sweeping reforms by saying, "Businesses go where they are wanted and they bring jobs and economic growth to the states with the best legal systems." ❑

THE WALKER COMPANIES provide location consulting, real estate, and facility development services for industrial corporations throughout the United States.
For additional information on our services, or to comment on ***The Industrial Outlook***, please contact:

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